

Message Text

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44

ACTION EUR-25

INFO OCT-01 IO-14 ISO-00 AGR-20 CEA-02 CIAE-00 COME-00

DODE-00 EB-11 FRB-02 H-03 INR-10 INT-08 L-03 LAB-06

NSAE-00 NSC-07 PA-04 RSC-01 AID-20 CIEP-02 SS-20

STR-08 TAR-02 TRSE-00 USIA-15 PRS-01 SP-03 FEAE-00

OMB-01 SWF-02 DRC-01 /192 W
----- 107151

R 021041Z JUL 74

FM AMEMBASSY HELSINKI

TO SECSTATE WASHDC 7615

INFO AMEMBASSY COPENHAGEN

AMEMBASSY OSLO

AMEMBASSY STOCKHOLM

USMISSION GENEVA

USMISSION EC BRUSSELS

UNCLAS HELSINKI 1305

E.O. 11652: N/A

TAGS: ECON, ETRD, FI

SUBJECT: FINNISH ECONOMIC STABILIZATION PROGRAM

ANNOUMCED

REF: HELSINKI 1231

1. SUMMARY: THE FINNISH GOVERNMENT'S JUST-ANNOUNCED ECONOMIC STABILIZATION PLAN SATISFIES VIRTUALLY NO ONE AND IS CRITICIZED AS CONTAINING NO MEASURES WHICH WILL HAVE AN IMMEDIATE IMPACT ON INFLATION OR ON THE ADVERSE BALANCE OF PAYMENTS. THE MAJOR MEASURE, EXPORT LEVIES ON FOREST PRODUCTS, WILL HAVE ONLY A MARGINAL COUNTER-CYCLICAL EFFECT AND INDUSTRY LEADERS CONSIDER IT DISCRIMINATORY AND SAY IT WILL DRAIN OFF PROFITS NEEDED FOR FURTHER DEVELOPMENT OF THIS IMPORTANT EXPORT INDUSTRY. END SUMMARY.

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2. THE FINNISH GOVERNMENT ON JUNE 12 ANNOUNCED ITS LONG-AWAITED ECONOMIC STABILIZATION PROGRAM. IT SHOWED SIGNS OF THE HASTE WITH WHICH THE 12-POINT PROGRAM WAS DRAWN UP TO MEET GOVERNMENT'S SELF-IMPOSED DEADLINE OF THE END OF JUNE. MAIN ELEMENT OF ANTI-INFLATION MEASURES IS COLLECTION OF FMK 300 MILLION (\$1 EQUALS FINNMARK 3.61) IN EXPORT FEES ON FOREST PRODUCTS, INCLUDING PULP AND PAPER. THIS IS INTENDED TO SIPHON OFF EXCESS PROFITS INDUSTRY IS ALLEGEDLY EARNING BECAUSE OF INTERNATIONAL PRICE RISES. THE ANNOUNCED EXPORT FEES RANGE MOSTLY FROM 5 TO 10 PER CENT OF EXPORT PRICES, ALTHOUGH THOSE OF TELEGRAPH POLES AND BLEACHED SULPHITE PULP ARE 1 AND 2 PER CENT RESPECTIVELY. UNDER RELEVANT LAW, 50 PER CENT OF THE AMOUNT COLLECTED WILL BE RETURNED LATER TO PAYEES FOR USE IN RAISING PRODUCTION, AT TIME WHEN INFLATIONARY PRESSURE IS LOWER. COLLECTION OF EXPORT LEVIES IS TO START AUGUST 16 AND RUN THROUGH FEBRUARY 15, 1975.

3. OTHER ELEMENTS IN STABILIZATION PROGRAM INCLUDE BEEFING UP DOMESTIC PRICE CONTROL OFFICE AND MAKING PRICE CONTROLS MORE EFFECTIVE, ESTABLISHMENT OF A TEMPORARY OFFICE TO MONITOR PRICES OF IMPORTED GOODS, INDUCEMENTS FOR INCREASING SAVINGS, FUTURE INTRODUCTION OF LEGISLATION TO PREVENT CERTAIN "UNNECESSARY" TAX BENEFITS AND TO ACCOMPLISH OTHER TAX REFORMS AND TO CHANGE SOMEWHAT PRESENT SYSTEM OF HOUSING CONSTRUCTION SUBSIDIES.

4. ANNOUNCED PROGRAM SATISFIES NO ONE. UNION LEADERS, INDUSTRY SPOKESMEN, BANKERS AND BUSINESSMEN CRITICIZE VARIOUS ASPECTS. CONSENSUS IS THAT PROGRAM AT PRESENT IS MERELY SET OF PROMISES TO DO CERTAIN THINGS LATER AND THAT NONE OF MEASURES REALLY ATTACKS INFLATION NOR WILL DO ANYTHING MUCH TO IMPROVE SERIOUSLY ADVERSE FINNISH BALANCE OF PAYMENTS. FOREST INDUSTRY LEADERS DEPLORE SINGLING OUT OF ITS EXPORTS TO BEAR BURDEN OF EXPORT LEVIES, SAYING THAT OVERSEAS SALES ARE NOW LOSING BUOYANCY AND THAT IN ANY CASE INDUSTRY NEEDS HIGHER PROFITS TO FINANCE FURTHER DEVELOPMENT OF GREATER PRODUCTIVE AND EXPORT CAPACITY. PRESIDENT OF ONE MAJOR LUMBER AND PULP AND PAPER COMPANY EXPRESSED OPINION PRI-

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VATELY TO EMBOFF THAT MAIN REASON FOR EXPORT LEVY WAS DESIRE OF SOCIAL DEMOCRATS TO SHOW WORKERS, WHO ARE THEIR MAIN SUPPORTERS, THAT IT CAN AND WILL PREVENT EXCESS PROFITS BY INDUSTRY AND THUS BE IN POSITION TO ASK SACRIFICES OF LABOR, SUCH AS SLOW-DOWN IN WAGE ESCALATION.

5. FROM STANDPOINT OF US, MOST INTERESTING POINT ABOUT PROGRAM IS THAT NO NEW IMPORT RESTRICTIONS WERE INCLUDED.

OTHER OMISSIONS IN PROGRAM WERE REVALUATION OF FINNMARK (WHICH HAD BEEN FAVORED BY LABOR LEADERS), ANY MEASURES TO INCREASE PRODUCTION OF EXPORTABLE PRODUCTS AND FOR PROMOTION OF EXPORTS, AND A WAGE FREEZE.

6. GOVERNMENT DESCRIBED STABILIZATION PROGRAM AS ONLY A FIRST STAGE. NEXT STAGE WILL BE IN CONNECTION WITH PREPARATION OF 1975 NATIONAL BUDGET AND RELATED NEW LEGISLATION. IN LONG RUN, FINLAND CAN ONLY PAY INCREASED WORLD PRICES FOR FUEL AND RAW MATERIALS BY INCREASING EXPORT VOLUME, SINCE PRICES IT GETS FOR ITS EXPORTS WILL NOT RISE TO SAME EXTENT AS, FOR INSTANCE, IMPORTED PETROLEUM HAS. LONG-RANGE ECONOMIC PROGRAM WILL THEREFORE DOUBTLESS INCLUDE MEASURES TO ATTEMPT TO DIRECT NEW INVESTMENT INTO SECTORS WHERE IT CAN BE MOST EFFECTIVE IN INCREASING FINLAND'S CAPACITY TO EXPORT OR IN DECREASING FINLAND'S NEED TO IMPORT.
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Message Attributes

Automatic Decaptioning: X
Capture Date: 01 JAN 1994
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: ECONOMIC DEVELOPMENT, EXPORTS, IMPORTS, FOREIGN TRADE, PRICES, ECONOMIC PROGRAMS, BALANCE OF PAYMENTS
Control Number: n/a
Copy: SINGLE
Draft Date: 02 JUL 1974
Decaption Date: 01 JAN 1960
Decaption Note:
Disposition Action: n/a
Disposition Approved on Date:
Disposition Authority: n/a
Disposition Case Number: n/a
Disposition Comment:
Disposition Date: 01 JAN 1960
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1974HELSIN01305
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: N/A
Errors: N/A
Film Number: D740175-0384
From: HELSINKI
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1974/newtext/t19740781/aaaacrur.tel
Line Count: 133
Locator: TEXT ON-LINE, ON MICROFILM
Office: ACTION EUR
Original Classification: UNCLASSIFIED
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 3
Previous Channel Indicators: n/a
Previous Classification: n/a
Previous Handling Restrictions: n/a
Reference: HELSINKI 1231
Review Action: RELEASED, APPROVED
Review Authority: cunninfx
Review Comment: n/a
Review Content Flags:
Review Date: 03 OCT 2002
Review Event:
Review Exemptions: n/a
Review History: RELEASED <03 OCT 2002 by ThomasVJ>; APPROVED <16 JAN 2003 by cunninfx>
Review Markings:

Declassified/Released
US Department of State
EO Systematic Review
30 JUN 2005

Review Media Identifier:
Review Referrals: n/a
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
Secure: OPEN
Status: NATIVE
Subject: FINNISH ECONOMIC STABILIZATION PROGRAM ANNOUNCED
TAGS: ECON, ETRD, FI
To: STATE
Type: TE
Markings: Declassified/Released US Department of State EO Systematic Review 30 JUN 2005